



CITY OF RYE, NEW YORK

**FINANCE COMMITTEE MEETING NOTES**

July 12, 2004 – 7:30 p.m. – Employees' Lounge, City Hall

Present: Finance Committee Members David Mullane, Fred Dunn, George Pratt, and Sal Samperi; City Staff liaisons Michael Genito and Mary Lou McClure.

Guests: George Ilse

Absent: Jono Peters, Michael Caponiti, Norm MacMaster, City Council liaison Franklin Chu

Recognition of Award

The Finance Committee recognized and complimented Michael Genito, Mary Lou McClure and the City's finance department for the *Distinguished Budget Presentation* award received by the City from the Government Finance Officers Association of the United States and Canada (GFOA) for the City's 2004 Annual Budget Document. The Committee also recognized and complimented Michael Genito for the *Certificate of Recognition for Budget Presentation* he received from the GFOA for that document.

Draft 2004 Comprehensive Financial Policy Document

The Committee discussed and agreed upon amendments to the Draft 2004 Comprehensive Financial Policy Document. A copy of the proposed memo to the City Manager and the Draft Comprehensive Financial Police Document, with added text indicated by underline and deleted text indicated by strikeout, are attached.

Recommended Amendments to City Charter Concerning Debt

The Committee discussed changes to the City Charter section C21-9 (D) concerning debt that would not require a referendum. A copy of the proposed memo to the City Manager concerning the recommended changes is attached. If accepted by the City Council, the City's Corporation Counsel would develop the necessary legal language to propose the change to the City's Charter, and at least one public hearing would be held for public input.

Financial Institution Fees and Compensating Deposit Balances

The Committee discussed the issue of using compensating deposit balances in financial institutions to offset fees and charges associated with the maintenance of accounts with those institutions. Michael Genito and Mary Lou McClure advised the Committee that the balances earn interest equivalent to standard overnight rates and that the City saves the costs associated with budgeting and bookkeeping for the fees and charges. Michael and Mary Lou also advised the Committee that the City periodically compares its compensating balance earning rates to the alternative of paying for fees out of interest earned on interest-bearing accounts. They noted that at the moment our actual compensating balance requirements are upwards of \$3.8 million but that the City at year-end 2003 had only \$2.7 million in compensating balances, and that the bank waived any additional fees or charges to address the shortage.

The Committee asked that as interest rates rise the City's finance department revisit periodically, and if appropriate consider the alternatives to using balances to compensate for fees and charges.

Next Finance Committee Meeting

The next meeting of the Finance Committee is scheduled for Monday, August 2, 2004 at 7:30 p.m. in the Employees' Lounge, lower level of City Hall.

Adjournment

Having no further business, the meeting adjourned at 8:50 p.m.

Respectfully submitted,

Michael A. Genito



Michael Caponiti  
Frederic Dunn  
Norman MacMaster

Jonathan W. Peters  
*Finance Committee Chair*

Franklin Chu  
*City Council Liaison*

Michael A. Genito  
*City Staff Liaison*

David M. Mullane  
George Pratt  
Sal Samperi

## CITY OF RYE FINANCE COMMITTEE MEMORANDUM

Date: July 12, 2004  
To: O. Paul Shew, City Manager  
From: City of Rye Finance Committee  
Re: Recommended Changes to the City's Financial Policies

The City of Rye Finance Committee has reviewed the City of Rye Comprehensive Financial Policy Document and recommends the following amendments:

### Budget Policy

It is the opinion of the Committee that extenuating circumstances, unusual and non-recurring in nature may be addressed with the prudent use of available fund balance. The Committee recommends changing the statement concerning the use of unreserved, undesignated fund balance as follows, with underline indicating added text and strikeout to indicate deleted text:

Unreserved and undesignated fund balance may be appropriated as part of the adopted budget to fund capital, ~~or emergency,~~ or unusual and non-recurring expenditures/expenses. Unreserved and undesignated fund balance should not be used to fund operating expenditures/expenses in the adopted budget.

### Cash Management and Investment Policy

HSBC Bank USA has been added as an authorized depository of City funds and an authorized financial institution for the purchase and sale of investments.

The following language has been added concerning authorized depositories: and financial institutions and dealers authorized for the purchase and sale of investments:

Banks and trust companies holding City deposits must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations ("NRSRO") listed below for long-term debt (debt having a term of one year or more):

<u>NRSRO</u>	<u>Long-Term Debt Rating</u>
<u>Moody's Investors Services</u>	<u>A</u>
<u>Standard &amp; Poors</u>	<u>A</u>
<u>Fitch</u>	<u>A</u>

The language concerning securities eligible for use as collateral against City deposits has been changed to remove the redundancy of indicating "meet or exceed" and then using the term "or better", and to reflect the fact that Fitch credit rating agency acquired Duff & Phelps, IBCA, and Thomson Financial BankWatch. The changes to the test are as follows:

Eligible securities must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations (“NRSRO”) listed below:

NRSRO	Long-Term Debt <sup>1</sup>	Short-Term Debt <sup>2</sup>
Moody’s Investors Services	A1 <del>or better</del>	P-1 <del>or better</del>
Standard & Poors	A+ <del>or better</del>	A-1 <del>or better</del>
Fitch	A+ <del>or better</del>	F-1 <del>or better</del>
<del>Duff &amp; Phelps</del>	<del>AA or better</del>	<del>D-1 or better</del>
<del>IBCA</del>	<del>AA or better</del>	<del>A1 or better</del>
<del>BankWatch (Banks)</del>	<del>B or better</del>	<del>TBW2 or better</del>

<sup>1</sup> Securities with an original term of one year or longer, ~~and for the claims paying ability ratings issued by Moody’s, Standard & Poors, and Duff & Phelps.~~

<sup>2</sup> Obligations usually defined as less than one year.

The following language has been added (underlined text) and deleted (strikeout text) concerning financial institutions and dealers authorized for the purchase and sale of investments:

All financial institutions with which the City conducts business must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations (“NRSRO”) listed below for long-term debt (debt having a term of one year or more):

NRSRO	Long-Term Debt Rating
Moody’s Investors Services	A
Standard & Poors	A
Fitch	A

~~All financial institutions with which the City conducts business must meet the requirements of one of the nationally recognized statistical ratings organizations as heretofore described.~~

## Debt Policy

It is the opinion of the Committee that good communications with those involved in the issuance and maintenance of City debt is essential. Due to the extremely sensitive and complicated nature of credit analysis, the Committee is of the opinion that only the City Manager, City Comptroller, or their respective designees should communicate with credit analysts and credit rating firms concerning City debt. The Committee is also of the opinion that there is great value in the interest shown by City officials concerning City debt-related issues that might be addressed in communications with bond counsel, financial advisors, and financial institutions, but that any such communications should be coordinated by and with the participation of the City Comptroller. While the nature of such communications does not reach the level of sensitivity or proficiency required in communications with credit analysts, the absence of the City Comptroller could result in unanticipated professional service fees, an appearance of conflicting goals or poor financial planning, or misrepresentations that might subject the City to serious financial consequences. Therefore, the statement concerning good communications with those involved in City debt has been modified as follows:

Good communications will be maintained with bond rating agencies, bond counsel, banks, financial advisors and others involved in debt issuance and management. The City Comptroller and City Manager or their respective designees shall be the City's representatives and shall determine who should participate in communications with rating agencies in official matters concerning City debt. The City Comptroller shall coordinate and participate in communications between City officials and the City's bond counsel, financial advisors, and financial institutions concerning City debt.

#### Operating Position Policy

The following two statements have been amended to 1) emphasize a commitment to maintaining a minimum unreserved, undesignated fund balance, and 2) recognize as noted earlier that there may be an occasional need to use fund balance for unusual and non-recurring items:

- The City will ~~strive to~~ maintain the unreserved, undesignated fund balance of the General Fund at a level at least equal to 5% of the total General Fund appropriations.
- General Fund unreserved and undesignated fund balances should be used for capital, ~~or~~ emergency, or unusual and non-recurring expenditures.

Respectfully submitted,

- City of Rye Finance Committee



CITY OF RYE, NEW YORK

# Comprehensive Financial Policy Document (Draft Revision July 2004)

Michael A. Genito  
City Comptroller  
Draft July 12, 2004

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## Transmittal Letter

Michael A. Genito  
City Comptroller  
1051 Boston Post Road  
Rye, New York 10580



Tel: (914) 967-7303  
Fax: (914) 967-7370  
E-mail: [mgenito@ryeny.gov](mailto:mgenito@ryeny.gov)  
<http://www.ryeny.gov>

### **CITY OF RYE** **Department of Finance**

March 11, 2004

To the Honorable Mayor, City Council, and City Manager of the City of Rye, New York:

Submitted herewith is the reviewed and revised Comprehensive Financial Policy Document, which incorporates all of the financial management policies, adopted by the City Council from their inception in 1992 through to the present date.

As in the past, these policies are reviewed every year, and where necessary, updated to reflect changes in law or generally accepted accounting principles. These policies may also be updated to enhance our understanding and implementation of sound financial practices, in response to changes and events that may affect our financial health.

We believe that the financial policies contained in this document represent the best practices of governmental financial management. Adhering to these policies will help to ensure that we maximize our revenues, minimize our expenditures, preserve the safety of our public funds, and maintain a strong position in the financial community.

Your adoption of this Comprehensive Financial Policy Document confirms our commitment to financial excellence, full disclosure, and responsible financial management.

Sincerely,  
CITY OF RYE

Michael A. Genito  
City Comptroller



## **Introduction**

The City of Rye has an important responsibility to carefully account for public funds, to manage municipal finances wisely, and to plan and provide for the adequate funding of services desired by the public and as required by laws, rules, or regulations, including the provision and maintenance of public facilities and improvements. The financial goals and policies set forth in this document are intended to establish guidelines for the continued financial strength and stability of the City of Rye. They have been reviewed annually and amended as necessary since their original adoption on January 22, 1992.

## **Financial Goals**

Financial goals are broad, fairly timeless statements of the financial position the City seeks to attain. The financial goals for the City of Rye are:

- To provide full value for each tax dollar by delivering quality services efficiently and on a cost-effective basis.
- To preserve our quality of life by providing and maintaining adequate financial resources necessary to sustain a sufficient level of municipal services, and to respond to changes in the economy, the priorities of governmental and non-governmental organizations, and other changes that may affect our financial well-being.
- To maintain a strong credit rating in the financial community.

## **Financial Policies**

Financial policies support the financial goals. They are general statements that guide decision-making in specific situations, to ensure that a decision will contribute to the attainment of the financial goals. Federal and state laws, rules, and regulations, our City Charter, and generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”) and the Government Finance Officers Association of the United States and Canada (“GFOA”) govern our financial policies and processes.

### **Budget Policy**

Sound financial practice and the desire to maintain a strong credit rating dictate that our budgets be balanced, constantly monitored, and responsive to changes in service demands. With these concepts in mind, the City of Rye has adopted the following budget policy statements:

Annual operating budgets will be adopted for the General Fund, special revenue funds, proprietary funds, and Debt Service Fund. Project-length budgets will be adopted for all capital projects.

Annual operating budgets will be adopted on a balanced basis, where operating revenues (estimated revenues) are used to fund operating expenditures/expenses (appropriations). Operating revenues include taxes, charges for services, interest earnings, license and permit fees, fines and forfeitures, regularly recurring governmental aid, debt proceeds and transfers in from other funds for operating (non-capital) purposes. Operating expenditures/expenses include salaries and wages, employee benefits, non-capital equipment and improvements, depreciation (proprietary funds only), materials, supplies, contractual costs, and transfers out to

other funds for operating (non-capital) purposes. Fund balance should not be considered a source of funds for operating expenditures/expenses. Nothing in this policy shall prohibit the use of operating revenues for capital expenditures/expenses.

The City will adopt an annual budget for the General Fund that includes a contingency equal to at least one (1%) percent of the total General Fund appropriations of that budget. This contingency will be used to provide for expenditures that exceed or revenues that do not meet budget estimates, and/or for new or increased program requirements required by law or desired and approved by City Council resolution.

Unreserved and undesignated fund balance may be appropriated as part of the adopted budget to fund capital, ~~or~~ emergency, or unusual and non-recurring expenditures/expenses. Unreserved and undesignated fund balance should not be used to fund operating expenditures/expenses in the adopted budget.

One-time revenues that are not required by law or agreement to be expended for a particular purpose will only be used to fund capital or emergency expenditures/expenses in the adopted budget. One-time revenues include, but are not limited to, proceeds from the sale of property and other major assets, governmental aid that is not regularly received and is unlikely to recur on a regular basis, major gifts or donations, and major insurance recoveries.

Reservations and designations of fund balance will be estimated in the adopted budget for amounts of fund equity legally restricted or otherwise not available for appropriation.

The City's fiscal year shall be the calendar year and its budget calendar shall be as provided for in Article 21 of the Charter of the City of Rye, as follows:

- On or before August 7 of each year, the City Manager will submit a capital program to the City Council which lists the proposed capital improvements with appropriate supporting information.
- On or before November 7 of each year, the City Manager will submit a tentative budget for the ensuing fiscal year to the City Council.
- Upon receiving the tentative budget from the City Manager and prior to a public hearing, the City Council may, by a vote of at least four members of the Council, make changes in the tentative budget.
- After considering the tentative budget, but not later than the first Wednesday in December, the City Council will hold a public hearing on the proposed budget.
- After the public hearing, the Council may adopt the proposed budget with or without amendment. In amending the proposed budget, it may add or increase programs or amounts, and may decrease or delete programs or amounts, except expenditures required by law, or for debt service or for an estimated cash deficit, provided that it may not increase the estimated revenues or the total proposed expenditures without the affirmative vote of at least five members of the Council.
- The Council shall adopt the proposed budget and determine the tax rate for the ensuing year on or before December 31 of the current fiscal year.

The City Manager may at any time during the fiscal year transfer part or all of any available appropriation balance among programs or accounts within any fund. The

Council may by resolution transfer part or all of any available appropriation balance among programs or accounts within and/or between any funds.

No appropriation for debt service may be reduced or transferred, and no appropriation may be reduced below any amount required by law to be appropriated or by more than the amount of the available balance thereof.

### Cash Management and Investment Policy

#### Scope

This cash management and investment policy applies to all money and other financial resources available to the City of Rye for deposit and/or investment on its own behalf or on behalf of any other entity or individual.

#### Objectives

The primary objectives of the City's cash management and investment activities are, in order of priority:

- To conform with all applicable federal, state and other legal requirements (legality),
- To adequately safeguard principal (safety),
- To provide sufficient liquidity to meet all operating requirements (liquidity), and,
- To obtain a reasonable rate of return (yield).

#### Delegation of Authority

In accordance with City Charter §C10-2, responsibility for administration of the cash management and investment program is delegated to the City Comptroller, who shall establish written procedures for the operation of the cash management and investment program consistent with these cash management and investment guidelines. Such procedures shall include an internal control structure adequate to provide a satisfactory level of accountability, maintaining records incorporating descriptions and amounts of investments, transaction dates, and other relevant information, and regulating the activities of subordinate employees.

#### Prudence

All participants in the cash management and investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the City.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

All participants involved in the cash management and investment process shall refrain from personal business activity that could conflict or appear to conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

## Diversification

It is the policy of the City to diversify its deposits and investments by financial institution, by investment instrument, and by maturity scheduling.

The following diversification limitations shall be imposed on the City's portfolio of deposits and investments:

Institution - No more than 55% of the overall portfolio may be deposited in a single bank, except in the case of money center banks, for which the limit is 75%.

Instrument:

- No more than 55% of the overall portfolio may be invested in cooperative investment programs, and,
- No more than 25% of the overall portfolio may be invested in the securities of a single issuer, except the U.S. Treasury.

Maturity:

- No more than 10% of the portfolio may have a maturity beyond twelve months,
- The average maturity of the portfolio shall never exceed one year, and,
- At least 10% of the portfolio shall be invested in overnight instruments or marketable securities that can be sold to raise cash on one business day's notice.

## Internal Controls

It is the policy of the City for all money collected by any officer or employee of the City to transfer those funds to the City Comptroller as soon as is practicable, but in any event within one business day of receipt, or within the time period specified by law, whichever is shorter.

The City Comptroller is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and that deposits and investments are managed prudently and in compliance with applicable laws and regulations.

## Designation of Depositories

The banks and trust companies authorized for the deposit of money are as follows:

The Bank of New York  
Citibank, N.A.  
HSBC Bank USA  
JPMorgan Chase Bank  
Wachovia Bank, N.A.

Banks and trust companies holding City deposits must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations ("NRSRO") listed below for long-term debt (debt having a term of one year or more):

<u>NRSRO</u>	<u>Long-Term Debt Rating</u>
<u>Moody's Investors Services</u>	<u>A</u>
<u>Standard &amp; Poors</u>	<u>A</u>
<u>Fitch</u>	<u>A</u>

The City Council shall review and approve this list at least annually.

### Collateralizing of Deposits

In accordance with the provisions of General Municipal Law §10, all deposits of the City, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by any one or combination of the following:

1. By a pledge of eligible securities with an aggregate market value equal to the aggregate amount of deposits, from one of the following categories:
  - Obligations issued by the United States of America, an agency thereof or a United States government sponsored corporation or obligations fully insured or guaranteed as to the payment of principal and interest by the United States of America, an agency thereof or a United States government sponsored corporation.
  - Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.
  - Obligations partially insured or guaranteed by any agency of the United States of America, at a proportion of the market value of the obligation that represents the amount of the insurance or guaranty.
  - Obligations issued or fully insured or guaranteed by New York State, obligations issued by a municipal corporation, school district or district corporation of New York State or obligations of any public benefit corporation which under a specific state statute may be accepted as security for deposit of public moneys.
  - Obligations issued by states (other than New York State) of the United States rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
  - Obligations of Puerto Rico rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
  - Obligations of counties, cities and other governmental entities of another state having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
  - Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization.
  - Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by federal bank regulatory agencies.
  - Commercial paper and bankers' acceptances issued by a bank (other than the bank with which the money is being deposited or invested) rated in the highest short-term category by

at least one nationally recognized statistical rating organization and having maturities of not longer than sixty days from the date they are pledged.

- Zero-coupon obligations of the United States government marketed as "Treasury STRIPS".

There must be diversification of the collateral securing deposits, except where the deposits aggregate less than \$2,000,000 or the security is in the form of obligations of the U.S. Government or State of New York.

Eligible securities must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations ("NRSRO") listed below:

<u>NRSRO</u>	<u>Long-Term Debt<sup>1</sup></u>	<u>Short-Term Debt<sup>2</sup></u>
Moody's Investors Services	A1 <del>or better</del>	P-1 <del>or better</del>
Standard & Poors	A+ <del>or better</del>	A-1 <del>or better</del>
Fitch	A+ <del>or better</del>	F-1 <del>or better</del>
<del>Duff &amp; Phelps</del>	<del>AA or better</del>	<del>D-1 or better</del>
<del>IBCA</del>	<del>AA or better</del>	<del>A1 or better</del>
<del>BankWatch (Banks)</del>	<del>B or better</del>	<del>TBW2 or better</del>

<sup>1</sup> Securities with an original term of one year or longer, ~~and for the claims-paying ability ratings issued by Moody's, Standard & Poors, and Duff & Phelps.~~

<sup>2</sup> Obligations usually defined as less than one year.

2. By an eligible irrevocable letter of credit issued by a qualified bank, other than the bank with the deposits in favor of the City for a term not to exceed 90 days, with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured short-term debt obligations meets the rating requirements of at least one nationally recognized statistical rating organization as heretofore described or by a bank that is in compliance with applicable federal minimum risk-based capital requirements.
3. By an eligible surety bond payable to the City for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims - paying ability meets the rating requirements of at least two nationally recognized statistical rating organizations as heretofore described.

### Safekeeping and Collateralization

Eligible securities used for collateralizing deposits shall be held by the depository and/or a third party bank or trust company, subject to security and custodial agreements satisfactory to the City's Corporation Counsel.

The security agreement shall provide that eligible securities are being pledged to secure City deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released providing collateral values are maintained, and, the events which will enable the City to exercise its rights against the

pledged securities including failure to meet deposit repayment or collateral terms, or the deposit institution's insolvency. In the event that the securities are not registered or inscribed in the name of the City, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the City or its custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for the City, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement shall also describe how the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for daily revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. The agreement shall provide that the custodian will exercise the City's rights to the security or as instructed by the City. Such agreement shall include all provisions necessary to provide the City with a perfected interest in the securities.

### Permitted Investments

As authorized by General Municipal Law §11, the City authorizes the City Comptroller to invest money not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

- Special time deposit accounts
- Certificates of deposit
- Obligations of the United States of America
- Obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America
- Obligations of the State of New York
- Obligations issued pursuant to Local Finance Law §24 or §25 (with approval of the State Comptroller) by any municipality, school district or district corporation other than this City
- Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments
- Certificates of Participation issued pursuant to General Municipal Law §109-b
- Obligations of this City, but only with any money in a reserve fund established pursuant to General Municipal Law §6-c, 6-d, 6-e, 6-g, 6-h, 6-j, 6-k, 6-l, 6-m, or 6-n.

All investment obligations shall be payable, saleable or redeemable at the option of the City within such times as the proceeds will be needed to meet expenditures for purposes for which the monies were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable, saleable or redeemable at the option of the City within two years of the date of purchase.

### Authorized Financial Institutions and Dealers

Financial institutions and dealers approved for the purchase and sale of investments are as follows:

The Bank of New York  
Citibank, N.A.

HSBC Bank USA

JPMorgan Chase Bank

Wachovia Bank, N.A.

MBIA Cooperative Liquid Asset Securities System (CLASS)

All financial institutions with which the City conducts business must meet or exceed the following rating requirements of at least one of the nationally recognized statistical rating organizations (“NRSRO”) listed below for long-term debt (debt having a term of one year or more):

<u>NRSRO</u>	<u>Long-Term Debt Rating</u>
<u>Moody’s Investors Services</u>	<u>A</u>
<u>Standard &amp; Poors</u>	<u>A</u>
<u>Fitch</u>	<u>A</u>

~~All financial institutions with which the City conducts business must meet the requirements of one of the nationally recognized statistical ratings organizations as heretofore described.~~ Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the City. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. The City Comptroller is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated by the City Council at least annually.

Purchase of Investments

The City Comptroller is authorized to contract for the purchase of investments:

1. Directly, including through a repurchase agreement, from an authorized trading partner. Authorization for the purchase of repurchase agreements is subject to the limitations outlined in the section of this policy entitled “Repurchase Agreements”.
2. By participation in a cooperative investment program where such program meets all the requirements of the General Municipal Law, the diversification characteristics as outlined in the section of this policy entitled “Diversification”, and that otherwise meets the same standards as the City has for direct investments.
3. By utilizing an ongoing investment program with an authorized trading partner, pursuant to a contract authorized by the City Council.

All purchased investments, obligations, or participations unless registered or inscribed in the name of the City, shall be purchased through, delivered to, and held in the custody of a bank or trust company. Such obligations shall be purchased, sold or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the City by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law §10.



## Repurchase Agreements

Repurchase agreements are authorized subject to the following restrictions:

- All repurchase agreements must be entered into subject to a Master Repurchase agreement providing for the terms outlined below and satisfactory to the Corporation Counsel
- The City may only be the initial purchaser in such agreements
- Trading partners are limited to banks or trust companies meeting the rating requirements of one of the nationally recognized rating organizations as heretofore described or primary reporting dealers approved by the Federal Reserve Bank of New York
- Obligations shall be limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America
- No substitution of securities will be allowed
- The custodian of the purchased securities shall be a party other than the trading partner, satisfactory to the City
- Tenor of the repurchase agreement should be no longer than 3 months
- Tenor of the securities to be purchased should be no longer than 10 years
- The market value of the securities purchased shall exceed the purchase funds by the margins shown below; and, the securities shall be revalued daily, and these margins should be maintained by the initial seller during the life of the transaction:
  - For bills or bonds less than 3 years tenor, 3%;
  - For bills or bonds of 3 years to 10 years, 4 1/2%;
  - No one repurchase agreement may exceed \$2,000,000, and,
  - The City retains the right to terminate the agreement and sell the securities outside the repurchase agreement if any of the above items are not met after adequate notice to the initial seller.

## Capital Asset Policy

This policy is to establish the principles related to the accounting treatment of our capital assets.

Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, construction in progress and all other tangible and intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Land and land improvements are inexhaustible capital assets and will not be depreciated. Construction in progress will not be depreciated. All other capital assets will be depreciated over their estimated useful lives, as established by the City Comptroller, using the straight-line method of depreciation. In no event shall the useful life of an asset be less than the period of probable usefulness established for debt purposes as found in Section 11 of the New York State Local Finance Law.

A capitalization threshold is the cost established by the City Comptroller that must be met or exceeded if an asset is to be recorded and depreciated as a capital asset. The capitalization threshold is based on the cost of a single asset. Assets that do not meet the capitalization threshold will be recorded as expenditures or expenses. For purposes of property control

(insurance, security, etc.), the City Comptroller and/or department heads may develop and maintain the appropriate record keeping system(s) to account for assets which do not meet the capitalization threshold.

Capital assets that meet the minimum capitalization threshold will be recorded at historical cost. The cost of a capital asset includes capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets will be recorded at their estimated fair value at the time of acquisition, including any ancillary charges. Estimated historical cost may be used in those cases where the actual historical cost is not readily available. Estimated historical cost will be calculated using the current replacement cost of a similar asset and deflating this cost to the acquisition year (or estimated acquisition year) using a price-level index approved by the City Comptroller.

Capital assets associated with the operation of enterprise funds will be recorded in those funds. Capital assets associated with general government operations, with the exception of infrastructure assets, will be recorded in the appropriate internal service fund(s). Infrastructure assets will not be recorded in a governmental or proprietary fund, but the City Comptroller will establish and maintain the record keeping system necessary to allow for the accounting, auditing, and reporting of such assets, including depreciation.

#### Useful Lives and Thresholds of Capital Assets

Class	Asset	Capitalization Life (Yrs)	Threshold (\$)
Land	Land and Site Improvements	Inexhaustible	Any value
Buildings	Buildings	50	100,000
Buildings	Buildings Improvements	50	50,000
Equipment	Accounting, Assessment or Tax Systems	10	15,000
Equipment	Passenger Vehicles w/capacity < 10 persons	3	15,000
Equipment	Passenger Vehicles w/capacity >= 10 persons	5	15,000
Equipment	Computer Hardware and Software	5	15,000
Equipment	Construction Machinery >\$15,000<\$30,000	10	15,000
Equipment	Construction Machinery >=\$30,000	15	30,000
Equipment	Fire/Police Boats	10	15,000
Equipment	Firefighting Apparatus	20	50,000
Equipment	Misc. Equipment, Furniture, Furnishings	5	15,000
Improvements	Fences, Walls, Trails, etc.	20	20,000
Improvements	Docks	10	20,000
Improvements	Dredging	7	100,000
Improvements	Parks & Playgrounds	20	50,000
Improvements	Golf Course Improvements	15	50,000
Improvements	Swimming Pools	15	50,000
Improvements	Underground Fuel Tanks	15	50,000
Infrastructure	Bridges & Tunnels	50	50,000
Infrastructure	Curbs & Sidewalks	25	50,000
Infrastructure	Drainage	50	20,000

Infrastructure	Parking Lots	25	20,000
Infrastructure	Sewers	50	20,000
Infrastructure	Streets – Primary	17	50,000
Infrastructure	Streets – Secondary	25	20,000
Infrastructure	Traffic Signals and Signs	25	50,000

#### Debt Management Policy

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. Properly managed debt preserves our credit rating, provides flexibility in current and future operating budgets, and provides us with long-term assets that maintain or improve our quality of life. To provide for the appropriate issuance and responsible use of debt, the City of Rye has adopted the following debt management policy statements:

- Long-term debt will be issued only for objects or purposes having a period of probable usefulness of at least ten years under New York State Local Finance Law.
- Short-term debt may be issued to finance current operating expenditures only in the event of extreme financial emergency. Short-term debt may be issued whenever appropriate for objects or purposes having a period of probable usefulness of at least five years under New York State Local Finance Law.
- Whenever appropriate, we should seek to issue debt that can be repaid from special assessments, enterprise fund revenues, or other sources other than a general levy of real property taxes.
- Debt maturity will not exceed the lesser of: the useful life (as established by the City Comptroller), or the period of probable usefulness (as defined in New York State Local Finance Law), of the object or purpose so financed.
- The annual operating budgets of all funds will be maintained so as to ensure the full and timely repayment of debt principal and interest due that year.
- As required under New York State Local Finance Law §104, our total amount of outstanding debt will not exceed 7% of our 5-year average full valuation.
- As required under our City Charter §C21-9:
- A mandatory referendum is required for the approval of debt that exceeds 10% of the 3-year average annual adopted operating budgets of our City;
- A permissive referendum is required for the approval of debt that exceeds 5% but is less than 10% of the 3-year average annual adopted operating budgets of our City, provided that the aggregate of the proposed debt issue and the principal balance remaining on debt issued previously by permissive referendum does not exceed this 10% limitation;
- The City Council may adopt a resolution for the issuance of debt that does not exceed 5% of the 3-year average annual adopted operating budgets of our City, provided that the aggregate of the proposed debt issue and the principal balance remaining on debt issued previously by council resolution does not exceed this 5% limitation; and,
- Exceptions to these limitations include the payment of judgments or claims, or compromised or settled claims against the City, or, for the payment of awards or sums payable by the City pursuant to a determination by a court, or an officer, body or agency in an administrative or quasi-judicial capacity, or, for obligations sold to the New York State Environmental Facilities Corporation or any successor thereto.
- Debt limits established by law and policy will be calculated at least once each year, and whenever otherwise requested or appropriate.

- Good communications will be maintained with bond rating agencies, bond counsel, banks, financial advisors and others involved in debt issuance and management. The City Comptroller and City Manager or their respective designees shall be the City's representatives and shall determine who should participate in communications with rating agencies in official matters concerning City debt. The City Comptroller shall coordinate and participate in communications between City officials and the City's bond counsel, financial advisors, and financial institutions concerning City debt.
- Our comprehensive annual financial reports and official statements will reflect our commitment to full and open disclosure concerning our debt.

#### Expenditure/Expense Policy

Expenditure/expenses are a rough measure of a local government's service output. While many expenditures/expenses can be easily controlled, emergencies, unfunded mandates, and unanticipated service demands may strain our ability to maintain a balanced budget. To ensure the proper control of expenditures/expenses and provide for a quick and effective response to adverse financial situations, the City of Rye has adopted the following expenditure/expense policy statements:

- Expenditures/expenses and purchase commitments will be made in a form and process that is legal, appropriate, funded, authorized and sufficiently documented.
- Expenditures/expenses and purchase commitments will be recorded in an accurate and timely fashion.
- The review and approval process for all claims made against the City shall be as follows:
  - Departments must issue purchase orders as required under our purchasing policy. Departments are encouraged to issue purchase orders whenever practical, even if they are not required.
  - Properly completed claims must be prepared and submitted to the finance department by the department responsible for originating the claim. A "properly completed claim" must include, but is not limited to, the vendor's name and address, date of claim, explanation, and accounts to be charged, department authorization signature and sufficient documentation. "Sufficient documentation" means that a person unfamiliar with the transaction could understand what was ordered, when, by whom, from what vendor, at what price, when the goods or services were delivered, who accepted delivery, and who authorized payment. Typical documentation includes copies of purchase orders, invoices and/or statements, council resolutions awarding bids or state contracts, records of quotes received, receiving slips, correspondence and other communications.
  - Finance will issue checks promptly for all claims properly completed and submitted.
- The balances in appropriation accounts will be monitored regularly to ensure that the total of expenditures/expenses and purchase commitments in any account do not exceed the authorized budget for that account.
- Requests for competitive bids, proposals, formal and informal quotes, and other methods of seeking and encouraging vendor competition will be obtained as required by law or otherwise established by the City Manager or City Comptroller.

- Arrangements will be encouraged with other governments, private individuals, and firms, to contract out or cooperatively deliver services, in a manner that reduces cost and/or improves efficiency and effectiveness while maintaining service quality.
- The full direct and indirect costs will be calculated for any service provided for a fee or charge, or where there is a potential for the reimbursement of such costs.
- We will maintain an effective risk management program that provides adequate coverage, minimizes losses, and reduces costs.
- All appropriations shall lapse at the close of the fiscal year to the extent that they shall not have been expended or encumbered.

#### Operating Position Policy

Operating position refers to the City's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis. Our operating position policy requires that:

The City will pay all current operating expenditures with current operating revenues.

Encumbrances represent commitments related to unperformed contracts for goods or services, and will be recorded when incurred. Encumbrances outstanding at year-end will be reported as reservations of fund balance.

The City will ~~strive to~~ maintain the unreserved, undesignated fund balance of the General Fund at a level at least equal to 5% of the total General Fund appropriations.

General Fund unreserved and undesignated fund balances should be used for capital, ~~or~~ emergency, or unusual and non-recurring expenditures.

The City will prepare a cash-flow analysis of all funds on a regular basis. Disbursements, collections and investments will be managed to provide sufficient cash for daily financial needs.

The City will prepare quarterly financial reports of the financial position and results of operations, and an analysis thereof, for the General Fund, special revenue funds, Debt Service Fund, and proprietary funds.

#### Purchasing Policy

The adoption of a purchasing policy confirms the commitment of a local government to ensure that its purchases of goods and services are made legally, fairly, prudently, competently, and at the lowest possible cost offered by responsible vendors. This purchasing policy, our city charter, General Municipal Law §§103 and 104, and the State Comptroller's Financial Management Guide subsection 8, provide guidance to those involved in the purchasing process. The City of Rye has adopted the following purchasing policy statements in accordance with §104-b of the General Municipal Law (GML):

- Per §C8-2(J) of our city charter, the city manager shall have control and supervision of all city purchases except for those requiring competitive bidding.
- The dollar thresholds stated in this policy are to mean the total city-wide aggregate amount which is estimated to be spent for the same or similar item in the course of a fiscal year.
- Per GML §103, competitive bids will be required for purchase contracts (contracts involving materials only) in excess of \$10,000 and public works contracts (contracts involving labor or both labor and materials) in excess of \$20,000.
- Some purchases are specifically exempt from competitive bidding or purchasing policy. Such exceptions are defined in GML §103 and §104-b, and include but are not limited to, state and county contracts, qualified agencies, emergencies, professional services, sole source vendors, true leases and insurance.

- The purchase record for any purchase made under an exception to competitive bidding or purchasing policy will include documentation clearly indicating the exception as defined in GML §103 or §104-b.
- For purchases not requiring competitive bid:
  - Three written quotes will be required for any purchase of \$5,000 or more
  - Two verbal quotes will be required for any purchase of at least \$2,500 and below \$5,000
  - Purchases below \$2,500 may be made at the discretion of the department head
  - Where it is economically feasible, departments are encouraged to seek competitive written quotes from three or more vendors, whether or not the quotes are required.
- The city council may adopt resolutions establishing circumstances and reasons under which, in the best interest of the city, competitive bids or quotes are not required .
- Purchase orders must be issued for purchases of \$500 or more. Purchase orders are encouraged where practical for purchases less than \$500.
- All purchases will be sufficiently documented. “Sufficiently documented” means that a person unfamiliar with the transaction would understand the transaction, including but not limited to, the nature and purpose of the transaction, parties involved, goods or services ordered and delivered, itemized and total costs, accounts charged, person(s) who authorized the purchase, person(s) who confirmed receipt of the goods or services, and the date of each material event in the purchasing process.
- The justification and reasons for any variance from this policy, including but not limited to, the selection of a vendor who is not the lowest responsible bidder or the failure to obtain sufficient competitive quotes, will be documented and made a part of the purchasing record.
- The city council and all city department heads will review this policy periodically and at least annually. Comments, questions, and proposed changes should be addressed to the city comptroller.
- The unintentional failure to comply with this purchasing policy or the provisions of GML §104-b shall not be grounds to void action taken or give rise to a cause of action against the city or any officer or employee of the city.

#### Revenue Policy

Revenues determine the capacity of a local government to provide services. Under ideal conditions, revenues would grow at a rate equal to or greater than expenditures. To ensure that our revenues are balanced and capable of supporting our desired levels of services, the City of Rye has adopted the following revenue policy statements:

- A process to review diversified and stable revenues will be maintained to shelter us from short-run fluctuations in any one revenue source.
- Each year and whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that we are maximizing our revenue potential.
- Each year, major revenues will be projected for at least the next three years.
- Legally restricted revenues will be avoided when they adversely affect the short or long-term financial health of our government.
- We will strive to be informed and aware of all grants and other aid that may be available to us. All potential grants and other aid shall be carefully examined for matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that our participation in such grants will be beneficial and cost-effective.
- Each year and whenever appropriate, intergovernmental revenues will be reviewed to determine their short and long-term stability, to minimize the impact of any adverse changes.

Intergovernmental revenues shall be used as legally prescribed or otherwise set forth by policy.

- A balance will be sought in the revenue structure between elastic and inelastic revenues, to minimize any adverse effects caused by inflationary or economic changes.
- One-time revenues will be used for capital improvements or as legally restricted to a specific purpose.
- We will carefully and routinely monitor any amounts due to us. An aggressive policy of collection will be followed for all receivables, including property taxes.
- General Fund recreation user charges and fees will be set to recover approximately 35% of total costs generated by General Fund recreation programs.
- Proprietary funds will generate revenue sufficient to support the full direct and indirect costs of these funds.
- Revenue forecasts shall be conservative, using generally accepted forecasting techniques and appropriate data.
- Each year and whenever appropriate, we will review our schedule of fees and related administrative procedures.

### **Periodic Review**

This Comprehensive Financial Policy Document, and each of the policies contained within, shall be reviewed by the City Council at least annually.

### **Questions, Comments and Suggestions**

We invite, encourage, and value your questions, comments and suggestions concerning this Comprehensive Financial Policy Document. Please feel free to contact Michael A. Genito, City Comptroller, City of Rye, 1051 Boston Post Road, Rye, New York 10580. TEL: (914) 967-7303 FAX: (914) 967-7370; E-mail: [mgenito@ryeny.gov](mailto:mgenito@ryeny.gov)

Respectfully submitted,

Michael A. Genito  
City Comptroller



Michael Caponiti  
Frederic Dunn  
Norman MacMaster

Jonathan W. Peters  
*Finance Committee Chair*

Franklin Chu  
*City Council Liaison*

Michael A. Genito  
*City Staff Liaison*

David M. Mullane  
George Pratt  
Sal Samperi

## **CITY OF RYE FINANCE COMMITTEE MEMORANDUM**

Date: July 12, 2004

To: O. Paul Shew, City Manager

From: City of Rye Finance Committee

Re: Recommended Amendment to City Charter Section 21-9 (Bond Resolutions)

The City's Finance Committee respectfully recommends the following amendments to section C21-9 "Bond Resolutions", paragraph D, of the City of Rye Charter; the following with underline indicating the new added text as recommended by Mr. Thomas Rothman, Esq. of Willkie Farr & Gallagher (the City's bond counsel):

The provisions of this section shall not apply to bond resolutions authorizing the issuance of bonds for the payment of judgments, or compromised or settled claims against the city, or awards or sums payable by the city pursuant to a determination by a court, or an officer, body or agency in an administrative or quasi-judicial capacity, or any capital improvement or equipment proposed to be constructed or acquired where the expense thereof, other than operation and maintenance, is to be borne by local assessment upon the several lots and parcels of land which the Council shall determine and specify to be especially benefited thereby, or capital improvements or equipment proposed to be constructed or acquired for purposes determined by resolution of the Council to be required for public safety purposes requiring urgent action in an amount not exceeding \$1,000,000 in the aggregate in any fiscal year, or capital improvements or equipment to be constructed or acquired which have been determined by resolution of the Council to be required to implement a federal, State or County of Westchester mandate failure of which to comply with could, in the judgment of the Council expressed in a resolution, result in the imposition of a fine or penalty, or authorizing the issuance of obligations to be sold to the New York State Environmental Facilities Corporation or any successor thereto.

### **Background**

The City Comptroller, Michael Genito, previously analyzed the City's Charter bond limitations in 2002. A review was made of the charter limitations on bond resolutions of 19 New York State cities, including Rye. Excluding Rye, the charters of the remaining 18 cities revealed that 14 had no charter bonding limits and four had charter bonding limits that were significantly less onerous than Rye's. If the charter bond limitations were not in place, New York State law would allow the City Council to approve, without referendum, any and all debt of the City.

The City of Rye Charter ("Charter") section C21-9 outlines when bond referenda are mandatory, permissive (where 10% or more of the registered voters could mandate a referendum by petition), and not required. Paragraph D of section C21-9 provides for various exceptions to the above law which do not require that a referendum be held if bond proceeds are used for the



payment of various legal, administrative and quasi-judicial judgments against the City, or for obligations sold to New York State Environmental Facilities Corporation.

A limiting factor in the Charter is the requirement that aggregate funding amounts be considered when calculating the bonding limits that would trigger a permissive referendum requirement or a mandatory referendum. If aggregate funding amounts were to increase from existing levels, a situation could arise where even relatively minor purchases (e.g. the purchase of a new fire truck) could be challenged by a permissive referendum or mandate a referendum. In addition, it could be argued that the threshold amount below that which the City Council could act without being subject to the Charter is too low.

### **Recommendation**

As stated above, Rye is one of the few cities in the State of New York that limits the authority of its local governing officials (i.e., our City Council) to issue debt that it believes is in the best interests of the community. Nonetheless, we believe that the Charter, while admittedly difficult to interpret, plays an important role in governing financial conduct, and should not be eliminated.

We do, however, recommend that various exceptions be added to the Charter to provide the City Council with the authority to respond on a timely basis to small, practical and other “common sense” funding requests without the expense and delay of the referendum process. In fact, several other municipalities have authorized exceptions that allow their respective local governments to satisfy funding requests of the types described above.

We recommend the following expenditures be excluded from the referendum requirements of the Charter if approved by the City Council, as indicated in our suggested changes to section C21-9 (D):

- Public improvements, whose cost is recovered by special assessments on the benefited properties. For example, a referendum would not be required if the debt service on bonds issued to install a sewer was repaid by special assessments against the benefited properties.
- Public safety improvements requiring urgent public action, (for example, fire, police, ambulance, building inspection), subject to a \$1,000,000 annual maximum cap.
- Funding required to comply with mandated Federal, State or County laws the failure of which would result in a fine or penalty.

Respectfully submitted,

- City of Rye Finance Committee